

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

IGA-02 AGR-05 AID-05 COME-00 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 EPG-02 OMB-01 STR-04 CEA-01

NSCE-00 SSO-00 USIE-00 INRE-00 /085 W

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O 211209Z MAY 77

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC IMMEDIATE 1777

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C O R R E C T E D C O P Y

FOR NEA DUBS FROM CHARGE

E.O. 11652: N/A

TAGS: EINV, EAGR, PK

SUBJECT: FAUJI-AGRICO FERTILIZER PLANT

REF: (A) STATE 117164, (B) CONSTABLE/LANDE TELCON

1. IN SEPARATE MEETINGS WITH FOREIGN SECRETARY AGHA SHAHI AND DIRGEN KHURSHID HYDER ON MAY 21, I INFORMED THEM OF AGRICO'S SUDDEN ACTION OF BACKING OUT OF THE FAUJI DEAL. I TOLD THEM THAT THIS HAD COME AS A COMPLETE SURPRISE TO US. WE HAD NOT BEEN CONSULTED BEFOREHAND AND IN FACT AGRICO HAD NOTIFIED THE IBRD BEFORE TALKING WITH US. I EMPHASIZED THAT THE DECISION OF AGRICO WAS NOT CONNECTED IN ANY WAY WITH THE PRESENT DIFFICULTIES IT WAS US GOVT. POLICY TO HONOR ALL COMMITMENTS ENTERED INTO WITH THE GOP AND THAT INCLUDED THE \$40 MILLION AID LOAN IN SUPPORT OF THE FAUJI/AGRICO DEAL SIGNED BY AMBASSADOR BYROADE LAST MONTH. AFTER MORE THAN THREE YEARS OF EFFORT ON THE

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PART OF AID OFFICIALS TO TRY TO PUT THIS PROJECT TOGETHER, WE WERE AS DISTRESSED AS I WAS SURE THE GOP WAS THAT THE DEAL HAD FALLEN THROUGH. I TOLD THEM THAT AGRICO REP ALLEN WAS EXPECTED TO ARRIVE HERE NEXT WEEK TO EXPLAIN TO FAUJI WHY HIS COMPANY HAD BACKED OUT. I ALSO SAID THAT IF THE GOP HAD ANY ALTERNATIVE PROPOSAL TO SUGGEST IN LIGHT OF AGRICO'S WITHDRAWAL, WE WOULD BE GLAD TO FORWARD

IT TO WASHINGTON FOR CONSIDERATION.

2. DURING MY MEETING WITH KHURSHID HYDER, I ASSURED HER THAT FOR OUR PART, WE WOULD DO EVERYTHING POSSIBLE TO MINIMIZE PUBLIC AND PRESS SPECULATION THAT THE AGRICO WITHDRAWAL WAS IN ANY WAY RELATED TO OUR PRESENT POLITICAL DIFFICULTIES. I URGED THAT THE GOP MAKE SIMILAR EFFORTS WITH ITS OWN PRESS. DR. HYDER WAS SOMEWHAT EQUIVOCAL, LEADING ME TO CONCLUDE SHE WAS NOT PREPARED TO GUARANTEE WHAT H.K. BURKI AND OTHERS MIGHT WRITE ON THIS QUESTION.

3. IN A PARALLEL DEMARCHE ON THE SAME DAY, ACTING AID DIRECTOR WOLFFER CALLED ON ACTING EAD SECRETARY SARFRAZ KHAN MALIK AND MADE THE SAME POINTS I MADE IN PARA. 1.

4. COMMENT. I DO NOT KNOW HOW WE ARE LIKE TO COME OUT ON THIS POLITICALLY IN THE GOP OR IN THE GOP-CONTROLLED PRESS. THIS IS JUST THE KIND OF ISSUE THAT THE LEADING ANTI-AMERICAN COLUMNISTS IN THE GOVT-OWNED PRESS MAY WELL SEIZE UPON AS EVIDENCE OF THE HIDDEN HAND OF THE USG AND OF THE UNRELIABILITY OF AMERICAN COMMITMENTS. I BELIEVE, HOWEVER, THAT WE HAVE FOLLOWED THE RIGHT APPROACH IN TRYING TO HEAD THIS OFF.

5. IN A RELATED MATTER, TWO REPS OF HERCULES CORPORATION CALLED ON THE EMBASSY LAST WEEK ON MAY 16, AND MENTIONED THE AGRICO DEAL. THE LEADER, RICHARD LEONARD, PRESIDENT HERCULES EAST, TOLD US THAT HERCULES HAD SERIOUS DOUBTS LIMITED OFFICIAL USE

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ABOUT THE ECONOMICS OF EITHER OF THE TWO AUTHORIZED NEW FERTILIZER PLANT PROJECTS (FAUJI-AGRICO OR MIRPUR MATHELO) AND THAT HE HAD TOLD GOP OFFICIALS IN ISLAMABAD THAT WERE EITHER OF THESE PROJECTS TO FAIL, HERCULES WOULD CONSIDER SYMPATHETICALLY DOUBLING THE PRESENT DAWOOD-HERCULES PLANT. LEONARD ESTIMATED THAT A DOUBLING OPERATION WOULD SAVE THE GOP SOME \$70 MILLION IN FOREIGN EXCHANGE IN CONSTRUCTION COSTS AS AGAINST BUILDING A NEW PLANT FROM SCRATCH, SUCH AS FAUJI-AGRICO. WERE HERCULES TO ENTER INTO AN EXPANSION ARRANGEMENT, THEY WOULD HOWEVER WANT A REVISION OF THE CURRENT HERCULES-DAWOOD-GOP CONTRACT TO ENABLE HERCULES TO SECURE A HIGHER DOLLAR RATE OF RETURN THAN WAS NOW POSSIBLE AS A RESULT OF PAKISTAN'S 1971 DEVALUATION OF THE RUPEE.
CONSTABLE

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